An American plant abroad tends to buy American components from here, and the fact that plants go abroad does not necessarily mean a reduction in profits and employment in this country.

Chairman PROXMIRE. Is there any kind of a study that you know anything about—in view of the importance of this, I hope maybe there is—that would show how significant a difference it would make in both imports and exports if we have an inflation in the coming year of 3 percent instead of an inflation of 4 percent?

You see, as I look at the elements involved in our trade—food, automobiles, and so forth—so many of them are fairly insensitive to a change in the Consumer Price Index. I am just wondering if that much of a difference in inflation, which is all the Council of Economic Advisers claims for a surtax, could make any big difference in our trade situation?

Mr. ROTH. I know of no detailed studies of this. I think, on the other hand, it is quite clear that a heavy expansion in our own economy would certainly, as it did in 1966, draw in a large increase in imports. This is one of the problems that I don't think is sometimes appreciated. When it is pointed out in a certain industry that there has been a tremendous increase in imports, the underlying factor—there are a number of them, but certainly one basic underlying factor—is always that there is an inflated economy into which the imports are coming.

Chairman PROXMIRE. Let me ask this: You refer to the export rebate and import tax, and as I understand it, this is a possibility that the administration has been considering.

When I was briefed on the balance-of-payments situation by an administration official 8 weeks ago or so, he mentioned this as a real possibility and said the President was sending officials around the world to discuss this possibility with our trading partners.

I am just wondering if we are likely to vitiate any prospect of eliminating some restriction we haven't used, but which other countries have used by this kind of discussion and negotiation now?

If the Congress is already getting in the mood to act in this way, it is an appealing kind of action for those who have import problems in their State, and I just wonder if this doesn't seem to be working at cross purposes with your overall presentation?

Mr. ROTH. This is a very good question, Senator. Actually there are two possibilities under consideration. One, a modest border tax adjustment to offset certain indirect taxes of our own. Second, a modest import surcharge because we are in a deficit position.

There are other possibilities, but rather than—and this goes back to the reason for the consultations in Europe and with our other trading partners—rather than use any restrictive measure in the trade area, the most desirable course would be for our trading partners to take expansionary measures of their own.

We feel, as I mentioned, that the surplus countries have a responsibility in a grave situation such as we face just as much as the deficit countries. This is why it makes no sense at all in adjustment terms for the Germans to increase their border taxes, even though it is fully justified in terms of the system. For in effect this means a devaluation of 1 to 2 percent when they are in a surplus position. And this is why we are saying to them now, as our team, under Ambassador Tresize, goes